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SECRET**H I G H L I G H T S**

World reaction to the events in Korea changed little during the past week as both East and West continued their separate efforts to put an end to the fighting and to gain adherents from those still reluctant to take sides in the cold war. The United Nations, while obtaining few results as yet in persuading member nations to commit military forces to the Korean war (see page 2), figured prominently in various maneuvers for reaching a compromise settlement in Korea. Admission of Communist China to the UN appeared to be the key issue. The USSR made it clear that admission of the Peiping regime was prerequisite to a Korean settlement; India's mediation efforts were based on the belief that only the return of the USSR to the UN would prevent World War III (see page 3); and the British still favor admitting the Chinese Communists to the UN, although not as a condition for a settlement in Korea (see page 3).

Meanwhile, Communist Party activity throughout the world indicated no preparation for early aggressive action (see page 6). In fact, it would appear that local Communist parties have been instructed to avoid any actions which would arouse Western fears that the Korean incident will be emulated in other areas.

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SECRET**THE KOREAN SITUATION**

UN Appeal UN efforts to obtain combat forces from the nations which replied favorably to the 27 June Security Council resolution on Korea have thus far had few concrete results. The UN appeal has served primarily to emphasize the international character of the fighting in Korea and the vital need for having such a force in readiness at all times. Meanwhile, the French have offered a naval vessel; Nicaragua has offered 10,000 ground troops; and Pakistan is giving serious consideration to contributing a brigade of seasoned troops. The introduction of Asiatic troops to fight with the US and South Korea would have a strong and favorable psychological impact throughout the Near and Far East by undermining the Soviet charges of US imperialism. New Zealand is discussing the advisability of committing a battalion, and Australia, without any official indication of its intentions, has delayed departure from Japan of occupation forces which include one infantry battalion. The only other reactions so far giving promise of favorable responses have come from the Western Union and Latin American countries. In New York, the Dutch delegate to the UN has inquired as to what type and quantities of ground forces the UN wants. Meanwhile, individual volunteer offers made to US diplomats in Denmark, the Union of South Africa, Turkey, Italy, Lebanon, Ireland, Peru, Brazil, and Costa Rica have currently given the UN Secretariat some basis for studying formation of a UN legion. Activation of a purely UN force would have great psychological and propaganda value in stressing active UN participation in combatting North Korean aggression. However, the equipping and coordinating of such an international force would raise complex and difficult problems.

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Peace Efforts As the UN continues its efforts to bring the fighting in Korea to a speedy end, the role of the UN itself figured prominently in all discussions of possible compromise solutions of the Korean situation, principally in connection with the seating of Communist China on the Security Council. Recent Soviet diplomatic and propaganda moves, though not in any sense conclusive and representing maximum Soviet demands, suggest that the USSR may later attempt a diplomatic settlement in Korea in the hope of localizing the Korean conflict and slowing US military preparations and mobilization efforts.

India's Role In the various maneuvers being attempted to prevent the Korean issue from lighting the fuse to World War III, India is playing a key role. Despite India's belated acceptance of the 27 June UN resolution calling for sanctions in Korea, India is still committed to a policy of neutrality between the US and the USSR. Prime Minister Nehru was careful to disassociate the Indian Government from the US stand on Formosa and Indochina, and implied that military assistance to the UN would be beyond India's capacity. India is apparently convinced that the dispute can be contained and a reversion to the status quo ante obtained if means for discussing the problem are made possible through the return of the USSR to the Security Council. US diplomats have accordingly been urged by representatives of the Indian Government to recommend that the US facilitate the seating of Communist China as necessary to the return of the USSR and hence essential to the discussions advocated by India.

British Role The position of the UK is also vital with respect to current maneuvers aimed at settling or localizing the Korean affair. The British still are fundamentally convinced that the Peiping regime should be admitted to the United Nations. This conviction may arise in part from the British hope of currying

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favor with the Chinese Communists, but its real basis is the belief that any government having de facto control of a country should be recognized as speaking for that country. Although the British will not accept a Soviet proposal for seating the Chinese Communists as prerequisite to negotiating a settlement in Korea, they will be entirely willing to seat the Chinese Communists if and when the question arises later. Regarding Formosa, the British have also made it plain that a major objective of their Far Eastern policy is to avoid a direct clash with the Chinese Communists. They do not believe that retention of Taiwan by Chiang Kai-shek is a justifiable Western policy objective, and they have publicly disassociated themselves from the new US policy of forcibly neutralizing Formosa. The British not only fear Communist retaliation in Hong Kong, but they are wary of taking any position not in accordance with the UN resolution on Korea, lest they lose the support of India and the nations of Southeast Asia.

KOREA

Northern Morale Despite the invader's continued aggressiveness, some weakening of Northern morale can be anticipated during the coming week. Four of the six Northern Korean divisions currently in action have been in the line for more than three weeks of continuous advance, and interrogations of enemy prisoners as long ago as 4 July indicated that the troops were tired and on short rations. Since that time, regrouping and consolidation periods have seldom exceeded 24 hours before the units again moved into action. Casualties thus far are estimated at 10 percent of the Northern forces committed and there are no indications that trained replacements are being moved to the front. Despite the anticipated reduction in Northern combat effectiveness, however, the enemy continues to have the capability of employing superior numbers on all fronts and can be expected to continue its advance toward Taegu and Pusan.

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Southern Developments The fourth week of the Korean conflict saw the removal of the skeleton government of the Southern Republic from Taejon south to Taegu. Although the civil population of the territory still in Republican hands was reported to be remaining calm, morale will be depressed by the fall of the deserted provisional capital. Such reduced morale can be expected to give further impetus to guerrilla activity. In the first two weeks of the invasion, surprisingly little action by Northern guerrillas behind Southern lines was reported. Continued successes by Northern forces, however, have apparently inspired an increase in guerrilla efforts, particularly in the areas of previous guerrilla concentrations (the mountains west of Pohang and the Kyongsang-Namdo and Cholla-Namdo districts).

If the guerrillas gain new adherents as the Northern invaders advance, they will present a serious threat to the security of communications and rear installations in areas held by Republican and US forces. To meet this threat and to bolster the Southern police, the 50,000 Republican police will be issued added US arms (particularly grenades and machine-guns) when the supply position makes this action possible. Present police equipment consists mainly of US carbines and Japanese rifles, and the police often engage guerrilla bands with superior armament.

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SECRET**CURRENT COMMUNIST TACTICS**

The first month of hostilities in Korea has produced few startling changes in Communist Party tactics throughout the world. The peace propaganda theme has continued with frenzied efforts to demonstrate that the US, not the USSR, was the aggressor in Korea and there has been no evidence of preparations for early violent action. In fact, the current behavior of Communist parties suggests that they have been instructed to avoid any actions which would arouse Western fears that the Korean incident will be emulated in other areas.

Front Organizations The major international Communist front organizations, though shrilly echoing Soviet charges of US intervention in Korea and hammering at the "peace" theme, are displaying considerable caution. For example, the World Peace Partisans Committee, in answering an appeal from North Korea, merely emphasized the danger of permitting the conflict to spread and called for a US withdrawal. Concurrently, the World Federation of Trade Unions and the World Federation of Democratic Youth have done little more than make routine appeals for solidarity in support of the North Koreans. In general, the front organizations are playing down the actual hostilities, treating the Korean situation in the context of the peace campaign, and promoting "non-intervention" by other nations. This non-intervention theme will probably assume greater importance in Soviet attempts to counteract the UN's plea for military contributions from UN members.

French Communists Although the French Communists have reportedly been instructed for the time being to follow the world-wide Communist peace propaganda line, the French Party is apparently making preparations for widespread

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direct action in the fall, including riots and sabotage attempts. Communist paramilitary forces are reportedly alerted now, and special mobile commando squads are currently being trained for inciting riots and neutralizing local French administrative agencies. French military and security forces can probably cope with any serious Communist disturbances. Fear of government retaliation, however, diminishes the possibility of direct Communist action at this time.

Italian Communists In Italy, the Communist Party is pursuing a moderate course regarding Korea, in an apparent attempt to avoid restrictive measures against the Party by the government and to recover from the set-back given the "peace campaign" by the North Korean attack. Togliatti, for example, while charging the US with imperialist aggression, refrained from claiming that South Korea had attacked North Korea. He asserted that Korea should not lead to World War III, because the USSR, as "a peaceful nation," will not go to war unless attacked. The Communists may hope to benefit from any peace proposals the USSR might make while US and UN military fortunes are at a low ebb. On the one hand, acceptance by the US of such offers would lower US military prestige and might cause an Italian reaction against the NATO, while rejection by the US might benefit the "peace" campaign and still further reduce Italian will to resist in the event of war.

Icelandic Developments The Communist Party of Iceland can at virtually any time seize control of the island by force, and the presence of a number of Soviet fishing vessels, including at least one mother ship, well ahead of the regular herring season is causing considerable concern among government officials. Not more than 500 well organized and armed men could seize control of Iceland; the Communist

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Party has the men and the organization and could easily be provided with the necessary arms, possibly from the Soviet fishing fleet now near Iceland. The Communists would have considerable difficulty retaining control of the island, however, because they would receive virtually no popular support. Moreover, the Communists would be unable to resist even a small contingent of US or NATO forces. There would seem little point, therefore, in a Communist coup at this time unless Soviet forces were ready to provide military support to the local Communists.

Greek Communists Current Communist-guerrilla propaganda hints of possible new aggression against Greece, while not likely to be followed up at this time, will probably succeed in aggravating the country's present problems. The guerrillas are at present incapable of mounting a strong sustained attack except as part of a Soviet-Satellite military offensive requiring more intense preparations than have as yet been apparent. Nevertheless, the guerrilla propaganda machine's recent allusion to "Korean parallels" on the northern frontiers of Greece, its exhortations to sabotage against alleged war preparations of the "Athens-Belgrade axis," and its attempts to encourage the development of a strong fifth column in Greece are having their psychological effects. The results are likely to include not only a sterner official attitude toward the Communists themselves but also: (1) further postponement of any rapprochement with Tito; (2) at least a slow-down of the military retrenchment on which increased Greek budgetary stability was postulated; and (3) an intensification of the present Cabinet's political difficulties to the point where the substitution of a "strong man" government, probably under Marshal Papagos, may become unavoidable.

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Japanese Communists The continued absence of reports on the whereabouts of nine Japanese Communist leaders purged by SCAP on 6 June lends some credence to an unconfirmed report that in early June the Japanese Communists were directed to establish a provisional government of the "Japanese People's Republic" in Pyongyang, then the capital city of the North Korean regime. Although other similarly unconfirmed reports of later date have placed the missing men in hiding in Japan, the USSR could obtain several advantages by establishing such a regime at this time. It would provide international Communism with a facade of legalism to support future actions against the present Japanese Government. It would provide a focus for the usual barrage of propaganda in support of a "people's government" and could serve as a channel for international Communist directives to the Party in Japan. It could even be supported by a Japanese "Liberation Army," composed of those Japanese reportedly in Chinese Communist ranks. In terms of immediate action, such a "provisional government" could attempt to take advantage of the rapid draining of US garrison strength in Japan, particularly since two to four months will be required to recruit, screen, equip, and train the recently-authorized additional 75,000 Japanese police. Despite these uses to which a provisional government could be put, there is no firm evidence to indicate an early increase in Soviet pressure on Japan. The Japanese Communists, as well as the leftists in the Korean community in Japan, appear to be exercising considerable restraint, and, while making bellicose propaganda attacks, have refrained from sabotage or strike action, and thus have not provided any definitive indications of Soviet-Communist intentions.

Ho's Plans The Ho Chi Minh regime in Vietnam is showing an increasing tendency to consider itself as the "liberator" of all Indochina rather than as the representative of the nationalist state of Vietnam. One manifestation of this tendency has been

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an increase in preparations for guerrilla activity in the hinterland kingdoms of Laos and Cambodia. Although prospects for an early Indochina-wide rebel offensive against the French are poor, any substantial increase in guerrilla activity in Laos and Cambodia could have serious repercussions. Communication between northern Laos and other French-held areas is weak, and French troops there must be supported by air. The area adjoins China and its population is susceptible to Viet Minh propaganda. The hinterland, therefore, could be exploited either as a stronghold for indefinite guerrilla warfare or as a center for a future decisive advance against major French positions in Vietnam.

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LOCAL DEVELOPMENTS

EUROPE

Schuman Plan The British and French steel industries are now both opposed to the Schuman Plan. Top British steel officials at present support the British Government's position against participation in the plan, though they would favor a plan relating to distribution and the limiting of "cut-throat" competition. The British officials are hopeful that the plan as visualized by the French will not emerge, but if it does, they will probably seek some working agreement with respect to markets. Leaders of the French steel syndicate, fearing German and Belgian competition, have been convinced by the first weeks of negotiation on the plan that it cannot be twisted to permit the French cartel to dominate the projected organization, and have threatened to bring pressure to bear on the French Assembly to defeat the plan. Such action is not likely, however, to prevent French ratification of a treaty, if a treaty is agreed to by the six nations currently discussing the Schuman Plan.

IRAN

New Cabinet Prime Minister Razmara has at least partially allayed any uncertainty about his ability to carry out his responsibilities by the vigor and realism he has displayed thus far in dealing with both economic and political problems. The new premier has already raised formally with US Ambassador Grady the question of securing Export-Import Bank credits for projects in such fields as well drilling and irrigation, road building, rehabilitation of industry, and improvement in agricultural production and processing. Most

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importantly, he has recognized the necessity for meeting the Bank's project-specification standards--hitherto the greatest obstacle to the granting of Iran's frequent requests for outside aid--by requesting that Ambassador Grady's economic advisory group work with Iranian representatives in preparing the plans and applications for specific projects. On the political scene, meanwhile, Razmara is working resolutely toward welding a unified government, and he has not hesitated to dismiss highly placed and capable officials in order to obtain this end. The astute A.H. Ebtehaj is being forced to resign as head of the National Bank because of his unwillingness to accept direction from the dominant group of financial liberals now in the Cabinet, and the unpopular head of the Seven Year Plan Organization has also been dropped, allegedly for tolerating corruption, despite his reputation for competency. Although Iran can ill afford the loss of well-trained managers, Razmara has apparently found replacements who will provide him a government free of internal dissension without notable loss of efficiency.

GERMANY

Communist Congress The central theme of the Communist-dominated Socialist Unity Party (SED) Congress which opened in Berlin on 20 July will probably be the "popular struggle for peace against Western aggression." The issue of German unity will be discussed in this context and US proposals for an all-German Government will probably be rejected by a counter-proposal which will, in effect, state that the road to German unity is through the German Democratic Republic and the 15 October 1950 elections. The presence of high-ranking representatives from at least 16 Communist parties, although in itself not unusual, indicates that purely internal affairs will be subordinated to international matters. The presence of these foreign

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delegates, however, has raised speculation concerning a Cominform meeting and the admission of East Germany to that body. There is no firm evidence to substantiate either speculation. As a matter of fact, whether or not this gathering is a formal Cominform meeting is fairly academic. A meeting of high-level Communist leaders at this time of crisis is quite logical and any Communist problems could be privately discussed at the present Congress without the formality of convening the Cominform. Moreover, the admission of East Germany to the Cominform would not foreshadow any new or startling development in Soviet tactics toward Germany.

INDOCHINA

French Policy The French are now attempting to divert US economic aid to Indochina to support the French military effort, an action which would allay French apprehension over possible extensive direct contact between the Vietnamese people and US technicians. French authorities in Indochina have proposed a review of the objectives of the US economic aid program and specifically recommended that envisioned economic aid be allocated primarily for such militarily useful projects as the development of roads, airfields, and other transportation facilities, and counterpart funds for financing the creation of the Vietnamese Army. The French proposal minimizes the importance of the health program, which at present has top priority, arguing that health and relief aid can only reach the areas which need it least. This French argument conflicts with their claims that the Red River Delta, a needy and accessible area, has been pacified. The French proposal, if adopted, would confirm the already strong Vietnamese impression that US economic aid is designed primarily to serve the French military effort.

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COMMUNIST POTENTIAL IN LATIN AMERICA

Although there has been no noticeable increase in Latin American Communist strength or activity since the attack on Korea, some national Communist parties and--possibly a greater danger--special sabotage agents possess a substantial potential for effective action in the event that the USSR expands its tactics of direct aggression. Communist sabotage activities from the Republic of Panama could threaten Panama Canal installations; strategic installations in Venezuelan petroleum areas are vulnerable to Communist action; and the output of critical and strategic materials in other areas could also be affected.

Sabotage directed against installations in the Panama Canal zone from the Republic of Panama is a distinct possibility; the Panamanian police are not capable of discovering and suppressing Communists in charge of sabotage, espionage, and other covert activities, nor of preventing alien Communists from filtering into Panama at this time. Although measures have been taken recently against overt Communist activities, Communists involved in covert activities probably do not work through the usual Communist organizations and are largely unknown to the police. Moreover, the police themselves are inadequately trained, badly organized, and deeply involved in local politics.

The Venezuelan oil installations are particularly vulnerable to damage by skilled saboteurs, and a resolutely-directed sabotage campaign could severely hamper oil production. Precautions taken by the oil companies with respect to fire-fighting equipment, guard systems, and maintenance of stand-by equipment for the repair of major installations are in many cases insufficient, and although the Venezuelan Government is now reportedly employing additional

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protective measures at strategic installations in petroleum areas and has alerted the Army against sabotage, there is no assurance that such measures are yet adequate or that the armed forces are capable of entirely preventing sabotage.

In other areas producing critical and strategic materials, the Communists are capable both of sabotage and work stoppages, particularly in the production of manganese in Brazil, copper and iodine in Chile, molasses and sugar in Cuba, lead and mercury in Mexico, and tin and antimony in Bolivia. Work stoppages could be conducted largely through Communist-influenced and dominated labor unions, and could involve strikes, slow-downs, and interference with transportation; sabotage is also possible in these countries. However, in either case no major industry would be tied up for more than short periods. Moreover, in time of war or national emergency, the governments of these countries would probably limit the duration of work stoppages, if not prevent them entirely.

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